

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2016 / 2017 SESSION

**DAU5018 – AUDITING 1**

(For Diploma Students Only)

20 OCTOBER 2016

2.30 p.m – 5.30 p.m

(3 Hours)

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### INSTRUCTIONS TO STUDENT

1. This question paper consists of 6 pages with 5 questions.
2. Answer ALL questions.
3. Write your answers in the answer booklet provided.

**QUESTION 1**

- (a) Explain the role of an auditor in the principal and agent relationship. You are required to highlight all the important issues involved in the principal and agent relationship. (14 Marks)
- (b) "Auditing standards are general guidelines to aid auditors in fulfilling their professional responsibilities in the audit of financial statements."

**Required:**

List TWO (2) types of auditing standards that are applicable in Malaysia. (2 Marks)

- (c) State TWO (2) reporting duties of an auditor based on the requirement stated in Section 174 of Companies Act 1965. (4 Marks)

[TOTAL 20 MARKS]

**QUESTION 2**

- (a) During June 2015, Hakim is assigned to be the auditor-in-charge for his audit firm's recurring annual audit of a major client, Style Furniture Berhad. He was provided with the engagement letter for the audit and a list of audit staff assigned to the engagement. It is his responsibility to plan and supervise the field work for the engagement. Other than that, he will review all the working papers prepared during the field work.

**Required:**

- (i) What is the purpose of an engagement letter? (2 Marks)
- (ii) Provide any THREE (3) contents of an engagement letter. (6 Marks)
- (iii) Identify the position that Hakim holds in the audit team based on his responsibilities described above. (2 Marks)
- (b) The following are activities that occurred in 2015 at Raytech Manufacturing Berhad, a public listed company.
1. Susan, the payroll accountant in the company creates several fictitious employee accounts in the company database and generates the payroll cheques to non-existence employees. She states her own bank account number in each of the cheque.

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2. The strategic director of the company submitted an expense reimbursement for overseas trip that he claimed was for business purpose. However, during the trip, he took his family members for a luxury vacation in New Zealand and attempted to charge the expenses to the company.
3. The Chief Financial Officer (CFO) of the company instructs Lily, the assistant accountant, to record cash received in the first few days of the next accounting period in the current accounting period to avoid a negative cash balance.
4. Every Saturday evening, the factory supervisor in the company takes scrap metal home in his van and sells it to a scrap dealer to make a few extra ringgit.
5. The company obtained long-term loan amounting to RM1,500,000 from one of local bank on 2<sup>nd</sup> July 2015. The company management decided to record only RM1,000,000 as long-term loan in the company statement of financial position for the year ended 2015 while the other RM500,000 are recorded in the financial statement of 2016.

**Required:**

- (i) Identify which of these activities is a fraud. (5 Marks)
- (ii) For each fraud, state whether it is a misappropriation of assets or fraudulent financial reporting. (5 Marks)

*(Note: You may use the table format as presented below to write your answer for both question (i) and (ii))*

<b>Fraud? (Yes / No)</b>	<b>Type of fraud (Misappropriation of asset / Fraudulent financial reporting)</b>
1.	
2.	
3.	
4.	
5.	

**[TOTAL 20 MARKS]**

**Continued...**

**QUESTION 3**

**To the members of BRB Group Berhad**

**Report on the Financial Statements**

We have audited the financial statements of BRB Group Berhad, which comprise the statements of financial position as at 31 December 2015 of the group and of the Company and the income statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 68 to 216.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2015 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

**Continued...**

Kuala Lumpur

**Figure 1**

**Figure 1** shows an audit report that is important in the audit engagement. By referring to the figure above, answer the following questions:

- (a) What is the function of auditor's report in audit engagement? **(2 Marks)**
- (b) There are **FIVE (5)** missing elements that should be written in the report. Identify and explain each of the missing elements. **(10 Marks)**
- (c) There are several types of auditor's report that can be issued by auditor. Based on your understanding by reading the opinion paragraph in **Figure 1**, identify and explain the type of audit report you would give. **(4 Marks)**
- (d) *"We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion."*

**Required:**

Referring to the statement above, explain your understanding regarding the appropriateness of audit evidence and sufficiency of audit evidence. **(4 Marks)**

**[TOTAL 20 MARKS]**

**Continued...**

**QUESTION 4**

- (a) Your firm has been appointed to audit the financial statements of Hill Plantation Berhad, a public listed plantation company located in Sabah. Before assessing the effectiveness of the company internal control, you are required to obtain an understanding of the company's control environment mainly in the following factors:

- Communication and enforcement of integrity and ethical values
- Participation by those charged with governance
- A commitment to competence
- Human resources policies and procedures

**Required:**

- (i) Provide definition of “**internal control**” and identify any **TWO (2)** objectives of internal control. **(6 Marks)**

- (ii) Explain each of the control environment stated in the figure above. **(8 Marks)**

(b)

There is no perfect internal control system in the world.

Do you agree with the above statement? Provide **TWO (2)** reasons to support your answer. **(6 Marks)**

**[TOTAL 20 MARKS]**

**Continued...**

**QUESTION 5**

- (a) International Standard on Auditing (ISA) 300 requires the auditor to plan the audit so that the engagement will be performed in an effective manner. Engagement planning involves activities and consideration of specific matters that is important to develop an overall audit strategy and audit plan. The followings are example of matters that are relevant to the audit planning process:

- Audit staffing requirements
- Obtain knowledge of the client's business and industry
- Consider going concern issues
- Understand the applicable laws and regulation
- Identify the related party

**Required:**

Explain why it is important to consider all the matters stated above in audit planning process. (10 Marks)

- (b) Sparkling Berhad has an internal audit department that consists of one internal audit manager and two internal auditors. The audit manager reports directly to the financial manager of the company and copies of the reports are routinely sent to the audit committee and also to the individual that are responsible for the area of activity being audited. Every year the internal audit department will assist the external auditor in conducting audit testing for financial statement audit.

**Required:**

- (i) Identify whether there is any objectivity problem with internal audit department in Sparkling Berhad. (3 Marks)
- (ii) What is an audit committee? (1 Mark)
- (iii) List any **THREE (3)** duties of the audit committee. (6 Marks)

[TOTAL 20 MARKS]

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